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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 003519

SIPDIS

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TAGS: EPET ENRG ECON PREL RS

SUBJECT: (C) OLIGARCH VEKSELBERG TELLS AMBASSADOR RUSSIAN
ECONOMY TO GET WORSE BEFORE IT GETS BETTER

REF: A. MOSCOW 3322

1B. MOSCOW 1295

Classified By: Ambassador John R. Beyrle for Reasons 1.4 (b/d)

SUMMARY

11. (C) In a December 3 meeting with the Ambassador, Viktor Vekselberg, billionaire Chairman of Renova Group and major partner in TNK-BP, said the worst is yet to come for the Russian economy. He suggested needed economic reforms, including for the oil sector, would have to wait as the government focuses on relieving the immediate effects of the economic crisis. He did not rule out the possibility that the crisis could lead to street demonstrations as unemployment rises. The GOR, he said, is looking for someone to blame and he predicted the blame would fall on oligarchs like himself. Vekselberg told the Ambassador he hopes U.S. businesses and Russian businesses can work together in lobbying the GOR on economic issues. He concluded with a plea for continued open dialogue with us despite the TNK-BP investor dispute, noting that he is "half-American," given that his children and wife are U.S. citizens.

"I HAVE GREAT RESPECT FOR OUR LEADERS, BUT..."

12. (C) Leading Russian businessman and billionaire, Viktor Vekselberg, chairman of Renova Group, a major partner in TNK-BP, told the Ambassador in a December 4 meeting that his businesses, "as all businesses," are seeing very hard times. He predicted the economic situation would get worse before it got better, expecting more pain in the first quarter of 2009 as the ripple effects of the economic crisis continued to spread. He said Russian leaders had been slow to appreciate the scale of the crisis, which has hit Russia particularly hard given its dependence on raw material exports.

13. (C) Prefacing his comments by saying, "I have great respect for our leaders, but..." Vekselberg criticized the GOR's response to the crisis, including some of its latest tactics and statements. He described as "stupid" the central bank's half-hearted defense of the ruble, advising that the bank should either pick a target and defend it or let the ruble float. Otherwise, he said, it is just inviting speculators to attack the currency. He dismissed Russia's hopes to become a major financial center as "not possible," and laughed off the idea, floated by Putin and Medvedev recently, of the ruble as a reserve currency (ref A).

¶ 14. (C) A major shortcoming of the government, according to Vekselberg, is that power is concentrated in the hands of very few leaders. He bemoaned that bureaucrats and ministries can't make decisions without permission from above. He suggested the economic crisis has put economic reform on the backburner, as the GOR focuses on alleviating the short-term effects of the crisis, including addressing consequent social problems that may emerge. He did not rule out street demonstrations as unemployment rises and the standard of living, which people have come to expect to rise rapidly, declines.

¶ 15. (C) Vekselberg said the GOR is looking for someone to blame for the effects of the economic crisis and lamented that the blame is likely to fall "on us, the oligarchs."

TNK-BP AND THE OIL SECTOR

¶ 16. (C) With regard to the oil and gas sector, Vekselberg complained about the onerous tax structure on oil (ref B), which he said the industry has long tried to change from being based on production and exports to being based on profits. However, he did not see the government restructuring the oil tax regime in the near term, as the state continues to squeeze the sector to meet short-term needs. Vekselberg also protested the government's support of Gazprom, Transneft, and Russian Railways, which he described as monopolies that burden the energy sector with artificially high tariffs that are designed to support government budgets.

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¶ 17. (C) Vekselberg said TNK-BP is stable for now, but that the longer-term picture is less certain. Financing costs and oil price uncertainty are delaying some projects. He said TNK-BP had been using \$60 per barrel oil in its forecasts for 2009, but that price now looks in doubt. He said the government's offers of credit to restructure foreign-currency debt are not very useful for TNK-BP, which has little such debt. He explained that credit is still available to the oil sector, at a price -- "it's expensive, but it's there." However, he added that the metals sector, in which Renova is also a major investor, is "in worse shape" as the businesses are very leveraged and their financial structures very vulnerable to prices, which have plummeted.

A PLEA FOR UNDERSTANDING

¶ 18. (C) Vekselberg ended the meeting with a plea for continued open communication with the U.S. and other Western observers in Russia. He said he felt he and his partners had sometimes been unfairly criticized during the TNK-BP investor dispute and asked the Ambassador to "at least understand our various interests." The Ambassador agreed that open communication was desirable, but added that Vekselberg could not be unaware of the damage the dispute had caused.

¶ 19. (C) Referring to his U.S. citizen wife and children (and new grandson), he noted that he is, after all, "half-American," and said as chair of the international affairs committee of the Union of Russian Industrialists and Entrepreneurs (RSPP), he has tried to forge closer ties with western businesses. In that regard, Vekselberg said the RSPP plans to send a big delegation of businessmen to Washington in February to meet with new USG leaders.

BEYRLE